



# STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST, SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

|                                                 |                                            |                              |                        |
|-------------------------------------------------|--------------------------------------------|------------------------------|------------------------|
| <b>DOCKET NO:</b><br><b>H-07</b>                | <b>BOARD MEETING:</b><br>December 17, 2024 | <b>PROJECT NO:</b><br>24-033 | <b>PROJECT COST:</b>   |
| <b>FACILITY NAME:</b><br>Midwest Medical Center |                                            | <b>CITY:</b><br>Galena       | Original: \$26,414,552 |
| <b>TYPE OF PROJECT:</b> Non-Substantive         |                                            |                              | <b>HSA: I</b>          |

**PROJECT DESCRIPTION:** The Applicants (Midwest Medical Center and Midwest Medical Center Foundation), propose to establish an additional surgical suite and modernize existing space on the campus of Midwest Medical Center, Galena. The cost of the project is \$10,350,000 and the expected completion date is April 30, 2026.

## **EXECUTIVE SUMMARY**

### **PROJECT DESCRIPTION:**

- The Applicants (Midwest Medical Center and Midwest Medical Foundation) propose to establish a third surgical suite and modernize existing space to add procedure rooms on the campus of Midwest Medical Center, Galena. The cost of the project is \$10,350,000 and the expected completion date is April 30, 2026.

### **WHY THE PROJECT IS BEFORE THE STATE BOARD:**

- The project is before the State Board because the proposal involves the building out of shell space.

### **PUBLIC HEARING/COMMENT:**

- A public hearing was offered for the project but was not requested. No letters of support or opposition have been received by the State Board.

### **PURPOSE OF THE PROJECT**

- According to the Applicants, the purpose of the project is to improve the overall patient experience at Midwest Medical Center (MMC) by expanding surgical services, which has experienced significant growth in utilization over the last two years. The Applicants have engaged the services of several new surgeons, which accounts for this growth in utilization. The Applicants note the proposed project will occur in phases to accommodate the growing demand for surgical services.

### **SUMMARY:**

- The Applicants addressed a total of 14 criteria and have not met the following:

| <b>Criterion</b>                           | <b>Non-Compliant</b>                                                                                                                                                                                                                     |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 77 IL Admin 1120.130 – Financial Viability | The Applicants are non-compliant with Percent Debt to Total Capitalization (2021, 2022, 2023, 2024, and 2025), Projected Debt Service Coverage (2022, 2023), Days Cash on Hand (2023), and Cushion Ratio (2021, 2022, 2023, 2024, 2025). |



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## Project #24-033 Midwest Medical Center, Galena State Board Staff Report

| APPLICATION/CHRONOLOGY/SUMMARY                   |                                                      |
|--------------------------------------------------|------------------------------------------------------|
| Applicant                                        | Midwest Medical Center<br>Midwest Medical Foundation |
| Facility Name                                    | Midwest Medical Center                               |
| Location                                         | One Medical Center Drive, Galena                     |
| Permit Holder                                    | Midwest Medical Foundation                           |
| Licensee/Operating Entity                        | Midwest Medical Center                               |
| Owner of Site                                    | Midwest Medical Center                               |
| Application Received                             | September 25, 2024                                   |
| Application Deemed Complete                      | September 30, 2024                                   |
| Review Period Ends                               | November 29, 2024                                    |
| Project Completion Date                          | April 30, 2025                                       |
| Review Period Extended by the State Board Staff? | No                                                   |
| Can the Applicant request a deferral?            | Yes                                                  |

### I. The Proposed Project

The Applicants (Midwest Medical Center and Midwest Medical Foundation) propose to add a third surgical suite and build out/modernize surgery support areas at the acute care hospital in Galena. The cost of the project is \$10,350,000 and the expected completion date is April 30, 2026

### II. Summary of Findings

- A. The State Board Staff finds the proposed project is in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project is **not** in conformance with the provisions of Part 1120.

### III. General Information

The Applicants are Midwest Medical Center and Midwest Medical Foundation. Midwest Medical Center is an Illinois not-for-profit corporation with ownership interest in its licensed critical access hospital (Applicants' facility), two rural health clinics, and a senior care community. Midwest Medical Foundation does not own or operate any other health care facilities.

#### IV. Project Uses and Sources of Funds

The Applicants are funding this project in its entirety with loans underwritten by the United States Department of Agriculture (USDA), amounting to \$10,350,000 (see Table Two).

| <b>TABLE TWO</b><br><b>Project Uses and Sources of Funds</b> |                     |                       |                     |                   |
|--------------------------------------------------------------|---------------------|-----------------------|---------------------|-------------------|
| <b>Uses of Funds</b>                                         | <b>Reviewable</b>   | <b>Non-Reviewable</b> | <b>Total</b>        | <b>% of Total</b> |
| Site Preparation                                             | \$329,820           | \$0                   | \$329,820           | 3.2%              |
| New Construction                                             | \$3,799,918         | \$0                   | \$3,799,918         | 36.7%             |
| Modernization Contracts                                      | \$4,326,053         | \$0                   | \$4,326,053         | 41.8%             |
| Contingencies                                                | \$216,934           | \$0                   | \$216,934           | 2%                |
| A& E Fees                                                    | \$651,917           | \$0                   | \$651,917           | 6.3%              |
| Consulting and Other Fees                                    | \$325,358           | \$0                   | \$325,358           | 3.1%              |
| Movable or Other Equipment                                   | \$300,000           | \$0                   | \$300,000           | 3%                |
| Net Interest Expense During Construction                     | \$400,000           | \$0                   | \$400,000           | 3.9%              |
| <b>Totals</b>                                                | <b>\$10,350,000</b> | <b>\$0</b>            | <b>\$10,350,000</b> | <b>100.00%</b>    |
| <b>Sources of Funds</b>                                      |                     |                       |                     |                   |
| USDA Loans                                                   | \$10,350,000        | \$0                   | \$10,350,000        | 100%              |
| <b>Totals</b>                                                | <b>\$10,350,000</b> | <b>\$0</b>            | <b>\$10,350,000</b> | <b>100.00%</b>    |

#### V. Project Details

Midwest Medical Center is a critical access hospital, located in HSA-1, and the B-2 Health Planning Area (HPA). HSA-1 consists of Boone, Carroll, DeKalb, Jo Daviess, Lee, Ogle, Stephenson, Whiteside, and Winnebago counties. HPA B-2 has two hospitals: FHN Memorial Hospital, Freeport (100 beds), and Midwest Medical Center, Galena (25 beds). The proposed project includes the establishment of a third surgical suite and associated support space at Midwest Medical Center, Galena. The proposed project will also include additional pre/post operating suites (PACU), improved central processing and equipment storage. The project's total square footage will be 12,510 gsf and consist of 4,846 gsf of newly constructed space, and 2,734 gsf of modernized space.

## **VI. Background of the Applicant, Purpose of Project, Safety Net Impact Statement, and Alternatives**

- A) Criterion 1110.110(a) – Background of the Applicant
- B) Criterion 1110.110(b) – Purpose of the Project
- C) Criterion 1110.110(c) - Safety Net Impact Statement
- D) Criterion 1110.110(c) – Alternatives to the Project

### **A) Background of Applicant**

An applicant must demonstrate that it is fit, willing and able, and *has the qualifications, background, and character to adequately provide a proper standard of health care service for the community.* [20 ILCS 3960/6]

The Applicants provided a list of all facilities under their ownership and licensure/accreditation information as required. The Applicants attested they comply and are in good standing with all federal and State regulations including the Illinois State Agency Historic Resources Preservation Act and Executive Order #2006-5. In addition, the Applicants attested they have not had any adverse actions as defined by the State Board in the past three years of filing this Application for Permit. The Applicants have addressed this criterion.

### **B) Purpose of the Project**

The applicant shall document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other, per the applicant's definition.

According to the Applicants, the purpose of the project is to improve the overall patient experience at MMC by expanding surgical services, which has experienced significant growth in utilization over the last two years. The Applicants have engaged the services of several new surgeons, which accounts for this growth in utilization. The Applicants note the proposed project will occur in phases to accommodate the growing demand for surgical services.

### **C) Safety Net Impact Statement**

*All health care facilities, with the exception of skilled and intermediate long term care facilities licensed under the Nursing Home Care Act, shall provide a safety net impact statement, which shall be filed with an application for a substantive project (see Section 1110.40). Safety net services are the services provided by health care providers or organizations that deliver health care services to persons with barriers to mainstream health care due to lack of insurance, inability to pay, special needs, ethnic or cultural characteristics, or geographic isolation.* [20 ILCS 3960/5.4]

This is a non-substantive project, and a safety net impact statement is not required. The Applicants did provide charity care information that is listed in Table Three below.

| <b>TABLE THREE</b><br><b>Charity Care Information</b><br><b>Midwest Medical Center, Galena</b> |              |              |              |
|------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
|                                                                                                | <b>2023</b>  | <b>2022</b>  | <b>2021</b>  |
| Net Patient Revenue                                                                            | \$33,763,402 | \$31,028,678 | \$23,266,965 |
| Amount of Charity Care (charges)                                                               | \$224,434    | \$326,913    | \$382,845    |
| Cost of Charity Care                                                                           | \$137,000    | \$196,000    | \$224,000    |
| % of Charity Care                                                                              | .4%          | .6%          | .9%          |

#### **D) Alternatives to the Proposed Project**

The applicant shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

**Alternative One** – Maintain Services/Status Quo.

**Alternative Two** – Surgery Expansion/Project as Proposed

The **first alternative** was rejected because this option would not address the need for additional surgical space at MCC. During the initial expansion project, the costs of expanding the surgical department was higher than anticipated, and was removed from the project itinerary, due to a lack of need for expansion of surgical services at the time. The recent engagement of additional surgeons and the increased surgical volume is reasoning for this rejection. **There is no capital cost for this alternative**

The **second alternative** involves the expansion of surgical services, which has become necessary, based on the increased surgical volume at MCC. The Applicants note having participated in several rounds of budgeting to secure the proposed project at its price of \$10,350,000.

#### **VI. Project Scope and Size, Utilization and Unfinished/Shell Space – Review Criteria**

- A) Criterion 1110.120(a) – Size of the Project
- B) Criterion 1110.120(b) – Projected Utilization

##### **A) Size of Project**

The applicant shall document that the physical space proposed for the project is necessary and appropriate. The proposed square footage cannot deviate from the square footage range indicated in Appendix B or exceed the square footage standard in Appendix B if the standard is a single number, unless square footage can be justified by documenting, as described in subsection (a)(2).

The proposed project will reconfigure existing space and with a combination of modernization and new construction, result in the following:

- Adding One Operating Room for a total of 3 Operating Rooms (1,728 GSF) (clinical/reviewable)
- Establish a Surgical Procedure Room for minor procedures (260 GSF) (clinical/reviewable)
- Relocate Endoscopy Procedure Room to larger area to provide PACU space for endoscopic procedures (486 GSF) (clinical/reviewable)

- Relocate/Expand Decontamination and Central Processing to accommodate new, larger surgical equipment (879 GSF) (non-clinical/non-reviewable)
- Equipment Storage will be expanded and relocated closer to the ORs. (653 GSF)
- Sterile Storage room will be expanded to provide ease and access to necessary surgical supplies (906 GSF) (non-clinical/non-reviewable)
- Nurse Station will be renovated to provide easier workflow, visibility, and patient access (296 GSF) (non-clinical/non-reviewable)
- Pre/Post Procedure Patient Care: The relocated/expanded PACU will provide additional stations to accommodate the anticipated increase in surgical cases (2,108 GSF)(clinical/reviewable).

Table Four contains the spatial allocations of the expanded modernized services, and whether the spatial accommodations meet the State standard for project sizes. It appears the applicants have met the requirements of this criterion.

| <b>TABLE FOUR</b>                                         |                 |                   |                 |               |
|-----------------------------------------------------------|-----------------|-------------------|-----------------|---------------|
| <b>Spatial Allocations Midwest Medical Center, Galena</b> |                 |                   |                 |               |
| Dept. Service                                             | Units/Rooms     | Proposed GSF      | State Standard  | Standard Met? |
| <b>Clinical/Reviewable</b>                                |                 |                   |                 |               |
| Surgery Suites                                            | 3 suites        | 1,728 GSF         | 2,750 dgsf/room | Yes           |
| Procedure Rooms                                           | 2 suites        | 1,010 dgsf        | 1,100 dgsf/room | Yes           |
| Pre-Op/PACU                                               | 12 rooms        | 2,108 dgsf        | 180 dgsf/unit   | Yes           |
| <b>Total Clinical</b>                                     | <b>17 rooms</b> | <b>4,846 dgsf</b> |                 |               |
| <b>Non-Clinical/Non-Reviewable</b>                        |                 |                   |                 |               |
| Decon/Central Processing                                  | 2 rooms         | 879 dgsf          | N/A             | N/A           |
| Equipment/Storage                                         | 1 room          | 653 dgsf          | N/A             | N/A           |
| Sterile Storage                                           | 1 room          | 906 dgsf          | N/A             | N/A           |
| Nurse Station                                             | 1 room          | 296 dgsf          | N/A             | N/A           |
| <b>Total Non-Clinical</b>                                 | <b>5 rooms</b>  | <b>2,734 dgsf</b> |                 |               |
| <b>TOTAL</b>                                              | <b>22 rooms</b> | <b>7,580 dgsf</b> |                 |               |

## **B) Project Services Utilization**

The applicant shall document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Appendix B.

The State Board has utilization standards for surgery/procedure rooms. The Applicants propose to establish a modernized/expanded surgical unit with three ORs, two procedure rooms (one for endoscopy, one for minor procedures), and 12 recovery areas/PACU. The Applicants supplied historical and projected utilization data that is illustrated in Table Five. The Applicants note an increase in projected utilization, due to the recent recruitment of physicians/surgeons expected to use the surgical/procedure suites. Despite the projected increase in procedures performed at MMC, the applicants are not compliant with the requirements of this criterion.



| <b>TABLE FIVE</b><br><b>Historical/Projected Surgical Service Utilization</b><br><b>Midwest Medical Center, Galena</b> |       |       |       |       |       |        |        |        |
|------------------------------------------------------------------------------------------------------------------------|-------|-------|-------|-------|-------|--------|--------|--------|
| Year                                                                                                                   | 2019* | 2020* | 2021* | 2022* | 2023* | 2024>  | 2025>  | 2026>  |
| OR/Procedure Rooms                                                                                                     | 2     | 2     | 2     | 2     | 2     | 2      | 5      | 5      |
| Surgical/procedural hours                                                                                              | 8,445 | 8,446 | 4,731 | 5,159 | 5,196 | 10,800 | 12,789 | 13,141 |
| Met Standard?                                                                                                          | Yes   | Yes   | Yes   | Yes   | Yes   | Yes    | Yes    | Yes    |
| *data taken from IDPH Annual Hospital surveys<br>>data supplied by applicant                                           |       |       |       |       |       |        |        |        |

## VII. Clinical Service Areas Other Than Categories of Service

|                                                                     |                                                                                                                                                                                       |
|---------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| New Services or Facility or Equipment<br>77 Ill. Adm. Code 1110.270 | (b) – Need Determination Establishment                                                                                                                                                |
| Service Modernization<br>77 Ill. Adm. Code 1110.270                 | (c)(1) – Deteriorated Facilities and/or<br>(c)(2) – Necessary Expansion<br>PLUS<br>(c)(3)(a) – Utilization – Major Medical Equipment<br>(c)(3)(b) – Utilization – Service or Facility |

### A) Service Modernization

The applicant shall document that the proposed project meets one of the following:

#### 1) Deteriorated Equipment or Facilities

The proposed project will result in the replacement of equipment or facilities that have deteriorated and need replacement. Documentation shall consist of, but is not limited to historical utilization data, downtime or time spent out of service due to operational failures, upkeep and annual maintenance costs, and licensure or fire code deficiency citations involving the proposed project.

#### 2) Necessary Expansion

The proposed project is necessary to provide expansion for diagnostic treatment, ancillary training, or other support services to meet the requirements of patient service demand. Documentation shall consist of, but is not limited to historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or fire code deficiency citations involving the proposed project.

#### 3) Utilization

##### A) Major Medical Equipment

Proposed projects for the acquisition of major medical equipment shall document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months after acquisition.

##### B) Service or Facility

Projects involving the modernization of a service or facility shall meet or exceed the utilization standards for the service, as specified in Appendix B. The number of key rooms being modernized shall not exceed the number justified by historical utilization rates for each of the latest 2 years, unless additional key rooms can be justified per subsection (c)(2) (Necessary Expansion).

C) If no utilization standards exist, the applicant shall document in detail its anticipated utilization in terms of incidence of disease or conditions, or population use rates.

### **Service to the Planning Area**

The primary service area for Midwest Medical Center is Galena, (zip code 61036), with a secondary service area consisting of Elizabeth (61028), Scales Mound (61075), East Dubuque (61025), Stockton (61085), Hanover, (61041), and Apple River (61001). These zip codes all reside in HSA-I, and the Applicants note that in calendar years 2022 and 2023, approximately 83% and 83.2% of the hospital's discharges originated from within this primary/secondary service area. Therefore, the primary purpose of the proposed project is to provide access to patient care in these service areas.

### **Service Modernization – Necessary Expansion**

The Applicants note that all clinical services applicable to this project are currently provided at MMC, and that no new clinical services will be established. The project is a necessary expansion of services based on historical and forecasted utilization (see Table Five). The only clinical/reviewable component being expanded is the Surgery Department. The project seeks to reconfigure existing space to accommodate the expansion of Surgery by one OR one new endoscopy procedure room, and one new minor procedure room. The historical and projected utilization data supplied by the Applicants fail to meet the State minimum standard for surgery/procedure room utilization, and a negative finding result.

## **XI. Financial Viability**

### **A. Criterion 1120.120 - Availability of Funds**

### **B. Criterion 1120.130 - Financial Viability**

### **C. Criterion 1120.140(a) - Reasonableness of Debt Financing**

The Applicants will fund the project with a loan from the United States Department of Agriculture (USDA) and provided a statement to support the reasonableness of financing arrangements and conditions of debt financing (application p. 206). The audited financial statements and the results shown in Table Six demonstrate the Applicants have sufficient cash to fund this project through its completion. The Applicants also provided Financial Viability Ratios in Table Seven that affirms the Applicants have sufficient resources available to fund this proposed project. The shaded areas in Table Seven indicate data that does not meet the minimum State standard, and a negative finding result.

**TABLE SIX**  
**Midwest Medical Foundation**  
**Years ended 2022 & 2021**  
**(In thousands)**  
**audited**

|                     | <b>2022</b>  | <b>2021</b>  |
|---------------------|--------------|--------------|
| Cash                | \$3,223,898  | \$5,130,329  |
| Current Assets      | \$8,821,330  | \$10,606,405 |
| Total Assets        | \$43,455,356 | \$42,388,367 |
| Current Liabilities | \$3,684,601  | \$3,787,430  |
| LTD                 | \$33,681,703 | \$34,743,372 |
| Total Liabilities   | \$37,366,304 | \$38,530,802 |
| Net Patient Revenue | \$31,028,678 | \$28,047,792 |
| Total Revenues      | \$34,710,345 | \$31,754,704 |

|                                                                                                    |             |             |
|----------------------------------------------------------------------------------------------------|-------------|-------------|
| Income from Operations                                                                             | \$1,859,762 | \$2,849,622 |
| Net Income                                                                                         | \$2,209,197 | \$5,491,909 |
| Source: Midwest Medical Foundation Audited Financial Statement 2022/2023 See Application File p.91 |             |             |

| <b>TABLE SEVEN</b><br><b>Financial Viability Ratios</b><br><b>Midwest Medical Foundation</b> |          |       |        |        |                     |        |
|----------------------------------------------------------------------------------------------|----------|-------|--------|--------|---------------------|--------|
| Historical Three Years                                                                       |          |       |        |        | Projected Two Years |        |
|                                                                                              | Standard | 2021  | 2022   | 2023   | 2024                | 2025   |
| Current Ratio                                                                                | 2.0>     | 2.8   | 2.58   | 2.35   | 2.32                | 2.8    |
| Net Margin Percentage                                                                        | 3.0>     | 17.3% | 6.41%  | 4.18%  | 7.70%               | 9.61%  |
| % Debt to total Capitalization                                                               | <50%     | 90%   | 85.89% | 82.67% | 80.2%               | 76.21% |
| Projected Debt Service Coverage                                                              | 2.5>     | 2.87  | 2.42   | 2.07   | 2.88                | 3.03   |
| Days Cash on Hand                                                                            | 75>      | 201.1 | 189.8  | 74.39  | 75.67               | 187.9  |
| Cushion Ratio                                                                                | 7.0>     | .41   | .48    | .28    | .21                 | .32    |
| Shaded areas indicate non-compliance with standards                                          |          |       |        |        |                     |        |

**A) Criterion 1120.140(b) – Terms of Debt Financing**

Applicants with projects involving debt financing shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available.
- 2) That the selected form of debt financing will not be at the lowest net cost available but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors.
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

The Applicants attest that the selected form of debt financing for the purpose of the Midwest Medical Center project will be the lowest net cost available, or if a more costly form of financing is selected, that form is more advantageous due to such terms as prepayment privileges, no required mortgages, access to additional debt, term financing costs and other factors. The Applicants have successfully addressed this criterion.

**B) Criterion 1120.140(c) – Reasonableness of Project Costs**

**Site Preparation** costs are \$329,820, which is 3.9% of new construction/modernization and contingency costs of \$8,342,905. This appears reasonable compared to the State Board Standard of 5%

**New Construction and Proportionate Contingency** total \$3,901,443, or \$805.08 per GSF (\$3,901,443/4,846 GSF= \$805.08 per GSF). This appears reasonable compared to the State Board Standard of \$968.88 per GSF.

**Modernization and Proportionate Contingency** total \$4,441,462, or \$607.08 per GSF (\$4,441,462/7,316 GSF= \$607.08 per GSF). This appears reasonable compared to the State Board Standard of \$678.21 per GSF.

**Contingency Costs** total \$216,934, or 2.6% of new construction/modernization costs (\$8,125,971). This appears reasonable compared to the State Board Standard of 10%-15%.

**Architectural and Engineering Fees** total \$651,917, or 7.8% of construction, modernization and contingency costs (\$8,342,905). This appears reasonable compared to the State Board Standard of 5.94-8.92%.

The State Board does not have a standard for the costs listed below.

|                                          |           |
|------------------------------------------|-----------|
| Consulting and Other Fees                | \$325,358 |
| Movable or Other Equipment               | \$300,000 |
| Net Interest Expense During Construction | \$400,000 |

#### **Criterion 1120.140(d) - Projected Operating Costs**

The Applicants project the following operating costs for two years after project completion.

2025: \$41,949,354

2026: \$44,982,150

#### **Criterion 1120.140(e) - Total Effect of the Project on Capital Costs**

2025: \$4,632,468

2026: (\$3,087,749)